

**REPORT OF THE AUDIT OF THE  
ELLIOTT COUNTY  
SHERIFF**

**For The Year Ended  
December 31, 2014**



**ADAM H. EDELEN  
AUDITOR OF PUBLIC ACCOUNTS  
[www.auditor.ky.gov](http://www.auditor.ky.gov)**

**209 ST. CLAIR STREET  
FRANKFORT, KY 40601-1817  
TELEPHONE (502) 564-5841  
FACSIMILE (502) 564-2912**



## **EXECUTIVE SUMMARY**

### **AUDIT EXAMINATION OF THE ELLIOTT COUNTY SHERIFF**

**For The Year Ended  
December 31, 2014**

The Auditor of Public Accounts has completed the Elliott County Sheriff's audit for the year ended December 31, 2014. Based upon the audit work performed, the financial statement presents fairly, in all material respects, the receipts, disbursements, and excess fees in conformity with the regulatory basis of accounting.

#### **Financial Condition:**

Excess fees decreased by \$1,911 from the prior year, resulting in excess fees of \$145,113 as of December 31, 2014. Receipts decreased by \$4,727 from the prior year and disbursements decreased by \$2,816.

#### **Report Comments:**

2014-001 The Sheriff Overspent The Maximum Salary Limitation Fixed By The Fiscal Court  
2014-002 The Sheriff's Office Lacks Adequate Segregation Of Duties

#### **Deposits:**

The Sheriff's deposits were insured and collateralized by bank securities.



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**ADAM H. EDELEN**  
**AUDITOR OF PUBLIC ACCOUNTS**

The Honorable Carl Fannin, Elliott County Judge/Executive  
The Honorable Jim Stephens, Elliott County Sheriff  
Members of the Elliott County Fiscal Court

Independent Auditor's Report

**Report on the Financial Statement**

We have audited the accompanying statement of receipts, disbursements, and excess fees - regulatory basis of the County Sheriff of Elliott County, Kentucky, for the year ended December 31, 2014, and the related notes to the financial statement.

**Management's Responsibility for the Financial Statement**

Management is responsible for the preparation and fair presentation of the financial statement in accordance with accounting practices prescribed or permitted by the laws of Kentucky to demonstrate compliance with the Commonwealth of Kentucky's regulatory basis of accounting as described in Note 1. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the financial statement that is free from material misstatement, whether due to fraud or error.

**Auditor's Responsibility**

Our responsibility is to express an opinion on the financial statement based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for County Fee Officials issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statement. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statement, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statement in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statement. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.



The Honorable Carl Fannin, Elliott County Judge/Executive  
The Honorable Jim Stephens, Elliott County Sheriff  
Members of the Elliott County Fiscal Court

### **Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles**

As described in Note 1 of the financial statement, the financial statement is prepared by the County Sheriff on the basis of the accounting practices prescribed or permitted by the laws of Kentucky to demonstrate compliance with the Commonwealth of Kentucky's regulatory basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America.

The effects on the financial statement of the variances between the regulatory basis of accounting described in Note 1 and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

### **Adverse Opinion on U.S. Generally Accepted Accounting Principles**

In our opinion, because of the significance of the matter discussed in the Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles paragraph, the financial statement referred to above does not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of each fund of the County Sheriff, as of December 31, 2014, or changes in financial position or cash flows thereof for the year then ended.

### **Opinion on Regulatory Basis of Accounting**

In our opinion, the financial statement referred to above presents fairly, in all material respects, the receipts, disbursements, and excess fees of the County Sheriff for the year ended December 31, 2014, in accordance with the basis of accounting practices prescribed or permitted by the Commonwealth of Kentucky as described in Note 1.

### **Other Reporting Required by Government Auditing Standards**

In accordance with Government Auditing Standards, we have also issued our report dated August 19, 2015 on our consideration of the Elliott County Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Elliott County Sheriff's internal control over financial reporting or on compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the entity's internal control over financial reporting and compliance.



The Honorable Carl Fannin, Elliott County Judge/Executive  
The Honorable Jim Stephens, Elliott County Sheriff  
Members of the Elliott County Fiscal Court

**Other Reporting Required by Government Auditing Standards (Continued)**

Based on the results of our audit, we have presented the accompanying comments and recommendations, included herein, which discusses the following report comments:

- 2014-001 The Sheriff Overspent The Maximum Salary Limitation Fixed By The Fiscal Court
- 2014-002 The Sheriff's Office Lacks Adequate Segregation Of Duties

Respectfully submitted,

A handwritten signature in black ink, appearing to read 'Adam H. Edelen', written in a cursive style.

Adam H. Edelen  
Auditor of Public Accounts

August 19, 2015

ELLIOTT COUNTY  
JIM STEPHENS, SHERIFF  
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES - REGULATORY BASIS

For The Year Ended December 31, 2014

Receipts

State Fees For Services:

Finance and Administration Cabinet	\$ 72,766	
Sheriff Security Service	<u>980</u>	\$ 73,746

Fiscal Court		76,264
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County Clerk - Delinquent Taxes		5,632
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Commission On Taxes Collected		50,395
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Fees Collected For Services:

Auto Inspections	290	
Accident and Police Reports	70	
Arrest Fees	30	
Serving Papers	5,320	
Carrying Concealed Deadly Weapon Permits	<u>2,040</u>	7,750

Other:

Add-On Fees	6,859	
Telecommunications Tax Commissions	691	
Miscellaneous	<u>19</u>	7,569

Interest Earned		<u>21</u>
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Total Receipts		221,377
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Less: Statutory Maximum		<u>76,264</u>
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Excess Fees Due County for 2014		145,113
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Payments to Fiscal Court - Monthly		<u>145,113</u>
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Balance Due Fiscal Court at Completion of Audit		<u><u>\$ 0</u></u>
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The accompanying notes are an integral part of this financial statement.

ELLIOTT COUNTY  
NOTES TO FINANCIAL STATEMENT

December 31, 2014

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

A fee official uses a fund to report on the results of operations. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

A fee official uses a fund for fees to account for activities for which the government desires periodic determination of the excess of receipts over disbursements to facilitate management control, accountability, and compliance with laws.

B. Basis of Accounting

KRS 64.820 directs the fiscal court to collect any amount, including excess fees, due from the Sheriff as determined by the audit. KRS 134.192 requires the Sheriff to settle excess fees with the fiscal court at the time he files his final settlement with the fiscal court.

The financial statement has been prepared on a regulatory basis of accounting, which demonstrates compliance with the laws of Kentucky and is a special purpose framework. Under this regulatory basis of accounting receipts and disbursements are generally recognized when cash is received or disbursed with the exception of accrual of the following items (not all-inclusive) at December 31 that may be included in the excess fees calculation:

- Interest receivable
- Collection on accounts due from others for 2014 services
- Reimbursements for 2014 activities
- Tax commissions due from December tax collections
- Payments due other governmental entities for payroll
- Payments due vendors for goods or services provided in 2014

The measurement focus of a fee official is upon excess fees. Remittance of excess fees is due to the County Treasurer in the subsequent year.

C. Cash and Investments

KRS 66.480 authorizes the Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

ELLIOTT COUNTY  
NOTES TO FINANCIAL STATEMENT  
December 31, 2014  
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

D. Fee Pooling

The Elliott County Sheriff's office is required by the Fiscal Court to participate in a fee pooling system. Fee officials who are required to participate in fee pooling deposit all funds collected into their official operating account. The fee official is responsible for paying all amounts collected for others. Residual funds are then paid to the County Treasurer on a monthly basis. Invoices are submitted to the County Treasurer to document operating expenses. The County Fiscal Court pays all operating expenses for the fee official.

Note 2. Employee Retirement System

The county official and employees have elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a cost sharing, multiple employer defined benefit pension plan, which covers all eligible full-time employees and provides for retirement, disability and death benefits to plan members. Benefit contributions and provisions are established by statute.

Nonhazardous covered employees are required to contribute 5 percent of their salary to the plan. Nonhazardous covered employees who begin participation on or after September 1, 2008 are required to contribute 6 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 18.89 percent for the first six months and 17.67 percent for the last six months.

Hazardous covered employees are required to contribute 8 percent of their salary to the plan. Hazardous covered employees who begin participation on or after September 1, 2008 are required to contribute 9 percent of their salary to be allocated as follows: 8% will go to the member's account and 1% will go to the KRS insurance fund. The county's contribution rate for hazardous employees was 35.70 percent for the first six months and 34.31 percent for the last six months.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65. Nonhazardous employees who begin participation on or after September 1, 2008 must meet the rule of 87 (members age plus years of service credit must equal 87, and the member must be a minimum of 57 years of age) or the member is age 65, with a minimum of 60 months service credit.

Aspects of benefits for hazardous employees include retirement after 20 years of service or age 55. For hazardous employees who begin participation on or after September 1, 2008 aspects of benefits include retirement after 25 years of service or the member is age 60, with a minimum of 60 months of service credit.

ELLIOTT COUNTY  
NOTES TO FINANCIAL STATEMENT  
December 31, 2014  
(Continued)

Note 2. Employee Retirement System (Continued)

CERS also provides post retirement health care coverage as follows:

For members participating prior to July 1, 2003, years of service and respective percentages of the maximum contribution are as follows:

<b>Years of Service</b>	<b>% paid by Insurance Fund</b>	<b>% Paid by Member through Payroll Deduction</b>
20 or more	100%	0%
15-19	75%	25%
10-14	50%	50%
4-9	25%	75%
Less than 4	0%	100%

As a result of House Bill 290 (2004 General Assembly), medical insurance benefits are calculated differently for members who began participation on or after July 1, 2003. Once members reach a minimum vesting period of ten years, non-hazardous employees whose participation began on or after July 1, 2003, earn ten dollars per month for insurance benefits at retirement for every year of earned service without regard to a maximum dollar amount.

Hazardous employees whose participation began on or after July 1, 2003, earn fifteen dollars per month for insurance benefits at retirement for every year of earned service without regard to a maximum dollar amount. Upon the death of a hazardous employee, such employee's spouse receives ten dollars per month for insurance benefits for each year of the deceased employee's hazardous service. This dollar amount is subject to adjustment annually based on the retiree cost of living adjustment, which is updated annually due to changes in the Consumer Price Index.

Historical trend information showing the CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report. This report may be obtained by writing the Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, KY 40601-6124, or by telephone at (502) 564-4646.

Note 3. Deposits

The Elliott County Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

ELLIOTT COUNTY  
NOTES TO FINANCIAL STATEMENT  
December 31, 2014  
(Continued)

Note 3. Deposits (Continued)

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the Sheriff's deposits may not be returned. The Elliott County Sheriff does not have a deposit policy for custodial credit risk but rather follows the requirements of KRS 41.240(4). As of December 31, 2014, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

Note 4. Drug Forfeiture Account

The Sheriff's maintained an account for drug-related forfeitures. For 2014, the beginning balance was \$4,137. The account earned interest of \$2, and there was a new forfeiture in the amount of \$250. The account expended \$350 for office equipment. The balance as of December 31, 2014 was \$4,039.

Note 5. Lease Agreement

The Sheriff's office was committed to a lease agreement with Xerox for a copier. The agreement requires a monthly payment of \$101 for 60 months to be completed in November 2015. The Fiscal Court makes the payments on the lease since the Sheriff's office is fee-pooling. The total remaining balance of the agreement was \$850 as of December 31, 2014.

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND  
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL  
STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS







**ADAM H. EDELEN**  
**AUDITOR OF PUBLIC ACCOUNTS**

The Honorable Carl Fannin, Elliott County Judge/Executive  
The Honorable Jim Stephens, Elliott County Sheriff  
Members of the Elliott County Fiscal Court

**Report On Internal Control Over Financial Reporting And  
On Compliance And Other Matters Based On An Audit Of The Financial  
Statement Performed In Accordance With Government Auditing Standards**

**Independent Auditor's Report**

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, the statement of receipts, disbursements, and excess fees - regulatory basis of the Elliott County Sheriff for the year ended December 31, 2014, and the related notes to the financial statement and have issued our report thereon dated August 19, 2015. The County Sheriff's financial statement is prepared on a regulatory basis of accounting, which demonstrates compliance with the laws of Kentucky and is a special purpose framework.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statement, we considered the Elliott County Sheriff's internal control over financial reporting to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statement, but not for the purpose of expressing an opinion on the effectiveness of the Elliott County Sheriff's internal control. Accordingly, we do not express an opinion on the effectiveness of the Elliott County Sheriff's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying comments and recommendations, we identified a certain deficiency in internal control that we consider to be a material weakness.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statement will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying comments and recommendations as item 2014-002 to be a material weakness.



Report On Internal Control Over Financial Reporting And  
On Compliance And Other Matters Based On An Audit Of The Financial  
Statement Performed In Accordance With Government Auditing Standards  
(Continued)

### **Compliance And Other Matters**

As part of obtaining reasonable assurance about whether the Elliott County Sheriff's financial statement is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance or other matters that is required to be reported under Government Auditing Standards and which is described in the accompanying comments and recommendations as item 2014-001.


### **County Sheriff's Response to Finding**

The Elliott County Sheriff's response to the finding identified in our audit is described in the accompanying comments and recommendations. The County Sheriff's response was not subjected to the auditing procedures applied in the audit of the financial statement and, accordingly, we express no opinion on them.

### **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Respectfully submitted,



Adam H. Edelen  
Auditor of Public Accounts

August 19, 2015

## COMMENTS AND RECOMMENDATIONS



ELLIOTT COUNTY  
JIM STEPHENS, SHERIFF  
COMMENTS AND RECOMMENDATIONS

For The Year Ended December 31, 2014

STATE LAWS AND REGULATIONS:

2014-001 The Sheriff Overspent The Maximum Salary Limitation Fixed By The Fiscal Court

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The Elliott County Sheriff overspent his maximum salary limitation as fixed by the Fiscal Court by \$2,496. The Elliott County Fiscal Court fixed the Deputies' salary limit at \$81,080; however, the Sheriff expended \$83,576. This could be the result of not tracking the cumulative total of deputies' salaries after each payroll. KRS 64.530(3) states, "the fiscal court shall fix annually the maximum amount, including fringe benefits, which the officer may expend for deputies and assistants, and allow the officer to determine the number to be hired and the individual compensation of each deputy and assistant." We recommend the Elliott County Sheriff monitor his payroll disbursements during the year and obtain any necessary amendments before year end.

*Sheriff's Response: The Elliott County Sheriff's office will keep track of these expenditures in the future.*

INTERNAL CONTROL - MATERIAL WEAKNESS:

2014-002 The Sheriff's Office Lacks Adequate Segregation Of Duties

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The Sheriff's office lacks adequate segregation of duties. Inadequate segregation of duties allows for one person to have a significant role in processing and recording receipts and disbursements, which would increase the risk that the misappropriation of assets and/or inaccurate financial reporting will occur and be undetected. The Sheriff's bookkeeper collects payments from customers, records transactions in the ledgers, prepares deposits, and reconciles the bank account. Internal control duties should be segregated to decrease the risk of misappropriation of assets, errors, and inaccurate financial reporting to external agencies. Compensating controls such as comparing the daily checkout sheet to the receipts ledger and the bank deposit can be implemented to decrease the risk present in the absence of proper segregation of duties, but they don't eliminate the lack of adequate segregation of duties. We recommend the same person not perform multiple accounting functions, and if the duties cannot be segregated, then strong oversight over the employee's work should be provided and documented.

*Sheriff's Response: No response.*

